

November 7, 2001

VIA ELECTRONIC TRANSMISSION AND REGULAR MAIL

Ms. Gloria Blue
Executive Secretary
TPSC
Office of the USTR
600 17th Street, NW
Washington, D.C. 20436

Re: Request to Exclude Products from Import Relief Under Section 203

Dear Ms. Blue:

This letter is filed by Honda of America Mfg., Inc. ("Honda of America") pursuant to the October 26, 2001 Federal Register notice, 66 Fed. Reg. 54321 (Oct. 26, 2001), to request that the TPSC exclude two specialized products from any increased duty, tariff-rate quota, or quantitative restriction that the President may impose under Section 203(a) of the Trade Act. Honda of America also filed a similar exclusion request for the products referenced in this letter with the International Trade Commission on October 9, 2001. As detailed below, these two products -- a hot-rolled carbon steel sheet product and a cold-rolled carbon bar product -- are critical to Honda of America's automobile manufacturing operations, and are not currently available commercially from any domestic steel mill.

Before detailing the specific products for which Honda of America seeks exclusion and providing the information specified in the notice, we will first briefly summarize Honda of America's United States manufacturing operations and its commitment to domestic sourcing, particularly domestic sourcing of its steel requirements.

Honda of America's United States Manufacturing and Purchasing

Honda of America conducts manufacturing operations at facilities located in Marysville, Ohio (production of automobiles, motorcycles, and all-terrain vehicles), Anna, Ohio (production of engines), and East Liberty, Ohio (production of automobiles). These facilities reflect a total capital investment of \$4.0 billion and employ approximately 13,000 persons. In calendar year 2000, Honda of America produced 677,090 cars, 130,172 motorcycles and all-terrain vehicles, and 1,024,935 engines. In calendar year 2000, Honda of America purchased a total of over \$7.0 billion in parts and materials from over 430 United States suppliers.

Steel products are obviously an essential material for Honda of America's extensive manufacturing operations. In calendar year 2000 Honda of America's affiliate, Honda Trading America Corporation ("Honda Trading"), purchased more than 550,000 tons of corrosion-resistant steel for Honda products. This corrosion-resistant steel is used in producing exterior body panels and integral structural parts. 98 percent of total corrosion-resistant steel was obtained from United States domestic producers, with the remaining amounts purchased from a Canadian mill because United States producers did not have the technical capacity to produce the products.

From the beginning of its automobile manufacturing operations in 1982, Honda of America has been committed to the local procurement of steel products, and has worked with domestic steel producers to achieve that objective. Although Honda of America had some initial problems with domestic steel purchased in the early 1980's, with technical assistance from Nippon Steel Corporation in Japan those problems were resolved. By 1992, approximately 95 percent of our steel was purchased from United States mills. As the United States steel companies have reduced the technological gap with foreign mills, Honda of America's purchases from domestic mills have continued to increase.

It is also important for the TPSC to understand the process by which Honda of America works with its steel suppliers (and other suppliers) so that it can enter into long-term contracts with them. Honda of America will only purchase from approved suppliers who have qualified to provide specific products. That approval and qualification process, which is careful and exacting, can take up to 18 to 24 months if all goes well to complete before a particular product is qualified. Currently, six domestic steel producers are approved suppliers to Honda of America for a variety of steel products. Our contracts with these approved suppliers are long-term, with prices for the products involved usually negotiated on an annual basis. Pursuant to these arrangements, Honda of America's suppliers generally supply material for the life of the parts involved. That life span usually corresponds to a vehicle model year, which is typically four to five years. Parts that are used in engines and transmissions, however, may have a life span of up to eight to ten years. Accordingly, when Honda of America commits to have a supplier provide a particular part, or materials for a particular part, that commitment typically involves an understanding to purchase that part or material from the supplier over at least a four or five year period and up to eight to ten years for engine and transmission parts. This is a central reason why Honda of America's supplier approval process must be so careful and exacting.

Honda of America's Requests for Exclusions

Notwithstanding its purchase of most of its steel needs from United States producers, Honda of America must source a limited number of specialty products from foreign sources because of unique circumstances. In particular, Honda of America must currently source the following three steel products from foreign suppliers because of the specific circumstances discussed below:

1. Hot-rolled dual-phase carbon steel sheet; and
2. Certain cold-finished carbon bar.

1. Hot-Rolled Dual-Phase Carbon Steel Sheet

a. Definition of this product

The first product that Honda of America must purchase from foreign sources is sheet of hot-rolled dual-phase carbon steel ("Dual-Phase Steel"), defined as follows:

Hot-rolled dual-phase steel, phase-hardened, primarily with a ferritic-martensitic microstructure, containing 0.9 percent up to and including 1.5 percent silicon by weight, further characterized by either (i) tensile strength between 540 N/mm² and 640 N/mm² and an elongation percentage \geq 26 percent for thicknesses of 2 mm and above; or (ii) a tensile strength between 590 N/mm² and 690 N/mm² and an elongation percentage \geq 23 percent for thicknesses of 2 mm and above.

b. Honda of America's use of this product and the names of producers of this product

Dual-Phase Steel is a unique product with a combination ferritic/martensitic microstructure that produces a steel with both ductility and low tensile strength during the forming process and fatigue resistance during performance. Honda of America uses sheet of this Dual-Phase Steel to produce covers for torque converters for its Accord and Acura TL and CL models.¹ Honda of America purchases this steel, through Honda Trading, from a Japanese steel mill [] because no United States mill yet provides this product on a commercial basis. Honda of America is also aware that [] also produces this product. Honda of America is not aware of any other producers of the product. Honda of America cannot reasonably use any other steel product as a substitute for this product because of Honda's specific strength, weight reduction, and formability requirements.

¹ Honda of America purchases automotive wheels from Topy Corporation, which uses Dual-Phase Steel to produce these wheels. Topy Corporation also filed a separate exclusion request for Dual-Phase Steel with the International Trade Commission, and we understand that Topy Corporation will also file an exclusion request with the TPSC.

c. Honda of America's lack of domestic sources at present and efforts to obtain domestic sources of this product

As noted, to Honda of America's knowledge, Hot-Rolled Dual-Phase Steel is not commercially available from any United States steel company. This circumstance is confirmed by domestic steel companies. Specifically, enclosed in **Attachment A** to this filing is a copy of an October 4, 2001 letter to Honda of America from USS Automotive agreeing "to support your request to the International Trade Commission to exclude hot-rolled dual-phase steel from any relief that may be recommended in the Section 201 proceedings." As this letter indicates, "U.S. Steel does not currently commercially produce this product." Honda of America is not aware of any other United States steel company that can commercially produce Dual-Phase Steel to Honda of America's standards.

The letter from USS Automotive also notes that they are developing the product and accepting trial material requests. In fact, Honda of America will be working with USS Automotive to seek to qualify the USS material per our requirements. As noted above, however, this process will take considerable time, so that, as USS Automotive recognizes, an exclusion for this product is necessary in order to avoid serious disruptions in Honda of America's manufacturing operations.

d. U.S. production and consumption of this product and the lack of U.S.-produced substitutes

As noted, Honda of America is not aware of any producer of the product in the United States and thus believes that there was no U.S. production of the product during the period 1996 to 2000. Honda of America does not have information on total U.S. consumption of the product for the period 1996 to 2000. Honda of America's consumption information is contained in the Exclusion Request Data Sheets that Honda of America filed with the International Trade Commission on October 17, 2001. Copies of these sheets are included in Attachments B to the copy of this exclusion request filed with the TPSC by regular mail. Projected annual consumption for the period 2001 through 2005 is expected to remain substantially the same, but, of course, may increase or decrease depending on the models produced to meet customer demands. As noted above, there are no U.S.-produced substitutes for the product that meets Honda of America's needs and standards.

2. Certain Cold-Finished Carbon Bar

a. Definition of this product

The second product for which Honda of America requests an exclusion consisting of various cold-finished carbon bar products that, because of the specific situations described below, Honda of America has been required to obtain from foreign sources. This product is defined as follows:

Cold-finished carbon bar with one of the following four specifications:

- JIS S35CL, measuring 44.0 mm in diameter, cut to length, containing lead;
- JIS S48CL, measuring 24.3 mm in diameter, cut to length, turned and polished;
- JIS S40CKM-1, measuring 120 mm and 92.5 mm in diameter, cut to length, bloom cast; and
- JIS SCM420H, measuring 42 mm in diameter, cut to length.

b. Honda of America's use of this product

Honda of America currently purchases the first two of these four cold-finished carbon bar items, respectively, for use in manufacturing two components, the clutch piston for the Honda Accord model and the steering rack for the Honda Accord model. For the clutch piston, the bar product is hot forged and precision machined at an outside U.S. supplier for use in clutches in Honda Accords with manual transmissions. For the steering rack, the bar is cut-to-length, straightened, and subjected to major machining at an outside U.S. supplier before being added to the steering gear box at another outside U.S. supplier. Honda of America plans to purchase the third of these cold-finished items for use in manufacturing the crankshafts for the 2003 Honda Accord model. The

fourth of the items will be imported for use in manufacturing [] for [] produced by Honda of America.

c. Honda of America's lack of domestic sources at present and efforts to obtain domestic sources of this product

As explained below, Honda of America purchased the first two cold-finished carbon bar items (items that it currently imports) from domestic steel companies that went out of business, and Honda of America was forced to source the product from Japanese steel mills that were existing qualified suppliers to Honda Motor. Honda of America needs exclusions for these products from any relief the President may provide under Section 203 of the Trade Act of 1974 to avoid seriously disrupting its operations as it works with domestic steel companies to source these or replacement materials.

Prior to this year Honda of America obtained cold-finished carbon bar for the clutch piston and the steering rack from CSC, Ltd. of Warren, Ohio. However, in January 2001 CSC filed for Chapter 11 bankruptcy, and in March 2001 CSC shut down its operations. Accordingly, Honda of America was required to obtain an alternative source for this material. The only other approved suppliers of these particular cold-rolled carbon bar materials were Japanese suppliers to Honda Motor in Japan, specifically [] and []. Accordingly, Honda of America began purchasing these items this year through Honda Trading America.

Honda of America is in the process of reviewing its materials requirements and/or evaluating whether United States steel companies can meet its requirements for these four types of cold-finished carbon bar. However, it is important that these four items be excluded from any action taken under Section 203. Specifically:

(1) For the cold-finished carbon bar used to produce Honda of America's clutch pistons, Honda of America is considering some revision to its requirements to be able to use domestic cold-finished carbon bar. Currently, Honda of America's specifications require the use of lead, which makes the hot forging operation to produce the product very difficult. As far as Honda of America is aware, no United States steel company can produce this leaded bar product. Honda of America is making efforts to localize this material by using a non-leaded material as a substitute. However, because of the extended time to make such a change, Honda of America will not be able to accomplish this change before its 2003 model production in mid-2002. Accordingly, it is essential that Honda of America have continued access to this specialized bar product through an exclusion from any Section 201 import restrictions.

(2) For the cold-finished carbon bar used to produce the steering rack, Honda of America is currently planning to source the steering rack itself with an outside supplier, so that it may not need to source this cold-finished carbon bar item. However, this change cannot be made until June 2002 for the model 2003 production. Honda of America sought to source this material from one of its domestic steel suppliers, but that supplier declined the opportunity to provide Honda of America with this material because of the complex heat treating necessary for the material. Thus, Honda of America also requests that this item be excluded from any relief in this investigation.

(3) Honda of America is also seeking an exclusion for materials that it will import in the future for use in producing crankshafts for the 2003 Accord that will be used in V-6 and L-4 engines. Again, the requirements for the material that will be used to make the crankshafts are such that they cannot be met by domestic sources.

(4) Finally, Honda of America is also seeking an exclusion for materials that it will import in the future for use in manufacturing [] for [] produced by Honda of America. Domestic mills are unable to produce this material to meet Honda's needs and standards.

d. Total U.S. consumption, U.S. production and the lack of U.S.-produced substitutes.

For these cold-finished carbon bar items, Honda of America is not aware of other producers of the items, either in the United States or in foreign countries. Thus, we believe that there was no U.S. production of these specific items from 1996 to 2000. Honda of America is also unaware of the total U.S. consumption of the items for each year from 1996 to 2000. Because the items were produced to meet Honda's needs and specifications, there may be no other U.S. consumption of the items. Honda consumption information is summarized on the Exclusion Request Data Sheets filed with the International Trade Commission on October 17, 2001, copies of which are included in Attachment B to the copies submitted to the TPSC by regular mail. Again, we request that this information be treated as confidential business information. Projected annual consumption for the period 2001

through 2005 is expected to remain substantially the same. Finally, we are not aware of any U.S.-produced substitute that would meet Honda of America's needs and standards.

Conclusion

For the foregoing reasons, Honda of America requests that the TPSC exclude the above-described dual-phase carbon steel and cold-finished carbon bar from any increased duty, tariff-rate quota, or quantitative restriction that the President may impose under Section 203(a) of the Trade Act. We appreciate the TPSC's attention to this request. Please let us know if there is any further information that we can provide relating to this request.

Honda of America requests confidential treatment for the business confidential information that is included in bracketed portions of the text of this letter and in Attachment B. Specifically, Honda of America requests confidential treatment for (1) the identification at pages 3 and 5 of its suppliers and potential suppliers of product, (2) its future intentions concerning its manufacture of certain items identified at pages 5 and 6, and (3) the Exclusion Request Data Sheets included in Attachment B, which disclose details concerning Honda of America's specific purchases of certain steel products. The quantitative information found in the Exclusion Request Data Sheets cannot be summarized without disclosing business confidential information. Disclosure of this business confidential information would cause significant competitive harm to Honda of America. Please let us know if you need additional support relating to the request for confidential treatment for this information.

Very truly yours,

s/ Rick Schostek

Rick Schostek
Vice President – Support Services
Secretary and General Counsel

Attachments with the mailed copy